Startup costs & operating expenses

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

The two types of expenses

- There are two types of costs: startup costs & operating expenses
- **Startup costs are the money you spend on getting up and running**
- Startup costs can be split into two things: things you need in order to get started and things you need to handle the early parts of your growth
- **Operating expenses are the money you spend on keeping your business running on a daily basis**
- You have to add contingency to all of these costs, by thinking of the worst case scenarios or just making it a percentage of the costs
- Make sure to include labor related issues in the contingency plan

See you next lecture!

Headcount & labor

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Headcount & labor expenses

- If you are going to hire people, you have to include headcount and labor into your model
- Headcount means how many people you're going to hire
- Depending on your business, you will have several categories of jobs that you will need to hire for
- Labor cost takes into account the compensation for each employee
- Think about how many people you want to start with and how many more you will hire over time, and build that into your model

See you next lecture!

Modeling rent & office needs

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Rent & office expenses

- **The easy way:**

  Use a per person per month cost as an assumption for each line item cost

- The resulting costs will be the headcount times each of the corresponding monthly costs per headcount per month

- **The better way:**

  In real life, you don't get to expand on demand and add office space as you add employees

- You pick an office and when you have too many people for it, you move to a bigger office

See you next lecture!

Modeling hosting expenses

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Web hosting expenses

- **The easy way:**

  Model hosting expenses based on a flat rate

- **The better way:**

  In real life, there will probably be a tiered pricing model, depending on the number of users

- Another way to do this: Model hosting expenses based on your users' usage - how many GB of bandwidth they use monthly

- You need to know in advance how the pricing model works for the services that you're paying for

See you next lecture!

Adding contingency

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

Thinking of the worst case scenario

- Putting financial models together can give you a false sense of control
- There will always be some factors that are outside of your control, that's why you should always factor in some contingency or padding
- Give yourself some room to work with if something unexpected happens
- You can set a fixed percentage for contingency or a flexible one
- Starting out, you will need a higher percentage of contingency, but later on, this percentage will decrease as you learn more about your business

See you next lecture!